CSO
Central States Health & Life Co. of Omaha

December 22, 2009

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

BY EMAIL:

Re: Docket No. R-1366, Proposed Amendments to Regulation Z Provisions for Closed-End Credit

Dear Ms. Johnson:

Central States Health & Life Co. of Omaha (CSO) is responding to the request for public comment from the August 26, 2009 Federal Register on proposed rule amendments to 12 CFR Part 226, Regulation Z, docket #R-1366 under the Truth in Lending Act.

CSO's primary business focus is the sale and administration of debt protection products in the form of voluntary credit insurance and debt cancellation programs offered directly by community banks and credit unions as well as local automobile dealers. CSO is among the top 10 U. S. writers of credit insurance and debt cancellation protection. We were founded in 1932 during the Great Depression, and have over 75 years of experience in the debt protection business. Whenever a borrower protects their loan with on of our products, they may keep their home, car, farm equipment, or other purchases, even though the borrower suffers a life changing event. This coverage additionally protects the borrower's credit rating and the lender's collateral.

Our comments address those portions of the proposed rule amendments which will specifically impact debt protection products. We have prepared separate comment pieces addressing: 1) the proposed change to include credit insurance premium and debt cancellation fees in the APR and 2) the proposed credit insurance and debt cancellation disclosure and eligibility requirements. However, in very general terms, CSO's primary comment is that the changes as proposed, would severely limit the availability of voluntary credit insurance and debt cancellation products. The rationale stated for these proposals does not appear to be consistent with nor take into account the realities of the need these products fulfill. We ask that the Board consider the following:

The Need For Debt Protection

- Death, disability or unemployment are the primary causes of income interruption resulting in a consumer's inability to meet monthly obligations. Often a death is preceded by a period of disability and unemployment. Yet, 25% of U.S. households have NO life insurance.[1] In only

[1] *(Americans' Financial Insecurity,* Prepared for The Life and Health Insurance Foundation For Education (LIFE), Roper Starch, October 1998)

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A CENTRAL STATES OF OMAHA COMPANY

56% of households does some member own individual life coverage; in only 54% does a member own group life coverage.[2] The typical credit insurance consumer has less than $50,000 of life insurance coverage and little if any savings.[3]

Current Consumer Protections

- The purchase of credit insurance/debt cancellation coverage is voluntary, not a condition for the extension of credit to the consumer.
- TILA, Regulation Z and the Home Ownership Equity Protection Act (HOEPA), along with state law and regulation require disclosure that election of the coverage is optional, along with the disclosure of the cost. Additionally they require the affirmative written acknowledgement and election by the borrower.
- Borrowers electing the optional insurance or debt cancellation coverage receive evidence of the insurance coverage and the right to a "free look". This allows the borrower to cancel within a specified time period (usually 30 days) or at any subsequent time and receive a refund or credit of the premium or fee financed.
- Credit insurance is one of the most highly regulated types of insurance. Most states have mandatory loss ratio requirements and many states have a set rate for the product. Additionally many states regulate the commission amounts payable in conjunction with the product. In all states, forms and premium rates are filed with and approved by state insurance regulators to assure benefits are reasonable in relation to the premium charge.

Advantages of Credit Insurance & Debt Cancellation Products

- Credit insurance and debt cancellation coverages are low cost, short-term and provide additional protection for borrowers who have little or no other comparable insurance, savings, or other means of repaying indebtedness in the event of death, disability, or unemployment.
- In 2008, CSO's average amount of inforce coverage was $13,400 for life insurance and $467per month for 5 years for disability insurance. These amounts of coverage are NOT readily available in the market place.
- Our own recent survey of term life insurance offerings available on the internet shows coverage in amounts under $25,000 is virtually unavailable.
- Credit life and disability insurance as well as their debt cancellation counterparts are available at the same premium rate to all eligible borrowers between the ages of 18 and 70 (65 in some plans).
- Borrower eligibility for life and disability protection is subject only to a few health questions, without the need for lengthy medical history or medical examinations.
- Payment with a single premium or fee means missing a loan payment does not result in a loss of coverage.

As of 12/31/08, CSO had nearly $3.9 billion dollars of credit life insurance coverage and $2.5 billion of credit disability coverage in force. The industry as a whole has billions more of coverage in force. Based upon the testimonials we receive from our insureds, this coverage makes a significant difference to them when tragedy strikes. With this coverage they are able to keep their home, car, farm equipment,

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[2] (*Shifting Patterns in U.S. Life Insurance Ownership,* Life Insurance Marketing and Research Association, Inc. 1988)

[3] (*Credit Insurance: Rhetoric and Reality,* Monograph 30, Credit Research Center, Krannert Graduate School of Management, Purdue University, March 1994)

or other purchase as well as preserve their credit rating. With this coverage, our community banks and credit unions do not need to pursue foreclosure and repossession.

We appreciate the work of the Federal Reserve Board and staff and commend you for working to protect consumer interests. We ask you keep in mind the importance of credit protection products as you review and consider our specific comments to the proposed changes which are set forth in the attached pages.

In today's economic environment there is more need then ever for this protection as evidenced by the following recent testimonials which are representative of the comments we receive each week:

> **"I would have had to drop my health insurance if I didn't have your insurance to cover my car payment." V. P., Clarissa, MN**
>
> **"You helped me again! I was able to pay my other bills for the 6 months I was laid up. It was such a relief knowing I wasn't going to lose my car because of non-payment. Thank you again!" E. L., Middlesex. NJ**
>
> **"This insurance helped me with my car payment. I am out of work. I thank you for your help. God bless." 'C. S., Newport, VA**
>
> **"My husband was hurt on the job. This insurance helped us through a real tough spot. It was well worth the premium." J. E., Cody, WY**

Sincerely,

Richard T. Kizer
Chairman

T. Edward Kizer
President

12.22.2009

CENTRAL STATES HEALTH & LIFE CO. OF OMAHA

RESPONSE TO REGULATION Z PROPOSAL R-1366

APR Proposal:
Including Voluntary Credit Insurance Premiums and Debt Cancellation/Suspension Fees In APR Calculation.

The Board is proposing revisions to Regulation Z as it applies to closed-end loans secured by real estate in an effort to improve the effectiveness of disclosures creditors provide to consumers. A majority of the proposed revisions are reasonable and will likely improve consumers' understanding of loan terms and conditions. However, we do not believe 12 C.F.R. § 226.4(g), which eliminates the exception for voluntary single premium credit insurance and debt cancellation and debt suspension products ("DCC") from the finance charge and resulting APR calculation, will improve the effectiveness of disclosures, and may confuse and mislead the consumer.

In addition to seeking comment on Proposal R-1366, the Board also requested comment about possibly extending the proposed revisions to the APR calculation to all closed-end loans. For the reasons articulated in the following comments, we urge the Board not to adopt the proposed APR revisions eliminating the exception for voluntary single premium credit insurance and DCCs from the finance charge and resulting APR calculation for ***any*** closed-end loan.

The Board Lacks Authority to Repeal Any Part of the Truth in Lending Act – That Power is Reserved Exclusively to Congress.

We respectfully submit that the Board lacks authority to eliminate the exception for voluntary credit insurance from the finance charge and resulting APR calculation. In its commentary, the Board noted that it has, over time, contributed to the "some fees in, some fees out" approach to the finance charge by excluding certain fees from the finance charge not otherwise enumerated in the statute.[1] While we agree the Board is authorized, pursuant to 15 U.S.C. § 1604, to make these exceptions and adjustments to TILA, no precedent exists of which we are aware supporting the Board's proposal to outright repeal a part of the Act. Eliminating § 1605(b) from TILA constitutes its effective repeal, a power reserved exclusively to Congress. *Nat'l Tour Brokers Ass'n v. I.C.C.*, 671 F.2d 528 (D.C. Cir. 1982)(stating rulemaking power of federal agency does not encompass power to make law or to repeal law).

Moreover, because Congress, at the time it originally enacted the credit insurance disclosure requirements in 1968 clearly contemplated the debate surrounding the propriety of creditors earning commissions for the sale of credit insurance, that same concern cannot now justify the Board's decision to exercise its 'adjustment and exception' authority under 15 U.S.C. § 1604. In its 2002 study of credit insurance, the Board noted the differing views that have long surrounded credit insurance and its value to consumers. In particular, the study juxtapositions the long held belief by some that creditors may aggressively offer credit insurance to earn sales commissions

[1] 74 Fed. Reg. at 4325, 4327 (Aug. 26, 2009).

and to protect the creditors from default, with the alternative and equally long held view that credit insurance safeguards underinsured individuals and their families "who could otherwise face financial uncertainty and distress from an unpaid debt in the event of an uninsured personal disaster." [2] The study acknowledges that Congress included the disclosure requirement for credit insurance in § 1605(b), which remains unchanged today, expressly to address those differing views.

Congress clearly contemplated the differing views surrounding the value of credit insurance and creditor sales commissions and chose to address these concerns by requiring disclosures rather than including the premiums wholesale in the finance charge. We respectfully submit the Board has no authority to unilaterally repeal § 1605(b), nor may it justifiably claim the very concerns underlying Congress' 1968 decision to conditionally exclude credit insurance from the finance charge now render that decision "contrary to the statute's purpose, operate to circumvent or evade the statute, or facilitate noncompliance" with the Act.[3] *See e.g.*, *Ragsdale v. Wolverine World Wide, Inc.*, 535 U.S. 81, 93-94 (2002) (stating agencies must give effect to Congressional compromise that occurs when key term in important piece of legislation is result of compromise between groups with marked but divergent interests in contested provision).

Voluntary Credit Insurance and DCCs Do Not Provide Creditors An Incentive to Shift Costs Away from the Interest Rate.

We respectfully disagree with the Board's comment[4] that excepting voluntary credit insurance premiums and DCC fees from the finance charge and APR (1) obscures the true cost of credit, (2) has created incentives for creditors to unbundled the cost of credit and shift some fees from the interest rate to ancillary fees excluded from the finance charge, and (3) that Congress did not anticipate how such unbundling would undermine the purpose of TILA. Congress clearly understood the role credit insurance played in the lending industry at the time it enacted TILA. At the time TILA was enacted, credit insurance had been a long standing part of the lending industry for several decades. The product itself, as well as the role it plays in the lending process, remains fundamentally unchanged. Accordingly, credit insurance plays the same role today in furthering the purposes of TILA as was contemplated by Congress over 40 years ago.

Moreover, unlike other ancillary real estate secured loan fees, credit insurance and DCCs provide no incentive to creditors to shift the cost of credit away from the interest rate. Unlike credit insurance, in most instances the amount charged the consumer for other ancillary real estate secured loan fees - like document preparation fees, title examination fees, fees for notarizing deeds, appraisal and inspection fees, and credit report fees - is directly controlled by the creditor. Creditors have no control over setting credit insurance rates – those rates are set by the states. A creditor cannot unilaterally increase credit insurance rates in order to "shift the cost of credit" to keep the interest rate artificially low. In most instances, other ancillary real estate secured loan fees, such as documentation preparation fees, are totally unregulated and are frequently a cost

[2] Thomas A. Durkin, Board of Governors of the Federal Reserve System, Division of Research and Statistics, *Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Federal Reserve Bulletin 201, 209 (April 2002).
[3] 74 Fed. Reg. at 4325, 4327 (Aug. 26, 2009).
[4] *Id.* at 43239-45.

required by the creditor to obtain credit. Comparing these other ancillary fees to credit insurance premiums and DCC fees is at best a poor example and at worst misleading. Simply put, creditors have little comparative incentive to look to a voluntary product like credit insurance or DCC to shift the cost of credit and artificially inflate fee income.
The sharp decline in recent years in sales penetration rates for credit insurance supports this conclusion. According to the last rigorous statistical-based study conducted by the Board on credit insurance, sales penetration for credit insurance exceeded three-fifths of borrowers in 1977 and 1985, but fell to only slightly more than one-fifth in 2001.[5] In fact, the number of consumers who indicated they felt pressured to purchase credit insurance has dropped by over 80% since 1977 to 5.1%, and half of nonpurchasers of credit insurance on installment credit indicated that credit insurance was never offered to them. [6] The implication is clear – the significant drop in sales demonstrates creditors are not looking to credit insurance as a lucrative source of fee income. Accordingly, voluntary credit insurance and DCC products should not be treated like other ancillary fees.

Voluntary Credit Insurance Does Not Pose the Problems Its Critics Contend

The Board indicates the objective criteria found at 15 U.S.C. § 1605(b) and 12 C.F.R. § 226.4(d) for determining when the consumer's purchase of credit insurance is voluntary "has many problems and has not proven satisfactory."[7] We request the Board provide clear and articulable support for this contention.

Available data clearly demonstrates that credit insurance does not pose the problems some of its critics contend.

- Surveys conducted in 1977, 1985, and 2001 each reveal the consistent belief held by a large majority of both credit insurance purchasers and nonpurchasers that purchasing credit insurance was irrelevant to the decision to extend credit by installment lenders.[8]
- The Board's 2002 report regarding credit insurance indicates the proportion of consumers who felt pressured to purchase credit insurance has fallen significantly since 1977.[9]
- The Board's 2002 report indicates nineteen in twenty purchasers of credit insurance on installment credit said they would purchase credit insurance again.[10]
- Of the 162,115 consumer complaints reported to the NAIC by state insurance departments from January through November 23, 2009, only 404 related to credit insurance – less than 0.25%.[11]

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[5] Durkin, *supra* at 209. The volume of gross written premium for credit life and credit accident and health insurance has also dropped significantly from its peak in 1989. For example, in 1992 credit life and credit accident and health gross written premium in the U.S. (both single premium and monthly pay premium) totaled $4.9 billion. In 2008, these same lines of business totaled $3.09 billion premium dollars, a more than 1/3 drop in premium production. *See* 2009 Fact Book of Credit-Related Insurance.
[6] Durkin, *supra* at 210.
[7] 74 Fed. Reg. 43246 (Aug. 26, 2009).
[8] Durkin, *supra* at 211.
[9] *Id.* at 210.
[10] *Id.*

As the Board admonished in its 2002 report: "[B]ecause the views of users and nonusers seem so divergent, it seems important that the views of users be given sufficient weight in considering public policies in this area.... [E]liminating this product by regulation could be disadvantageous to [users]."[12]

The Board's "All In" APR Proposal Illogically Distinguishes Between Differing Methods of Financing Voluntary Single Premium Credit Insurance.

Consumers have several options for financing their purchase of any type of insurance. Consumers may finance the premium along with an underlying loan, they may charge the premium to their credit card, or they may obtain a separate loan altogether to finance the premium. We question why the Board seeks to treat those consumers who choose to finance their purchase of insurance (whether traditional or credit insurance) with a credit card, for example, differently from those who choose the convenience of financing the premium with their loan. Unless the Board seeks to steer consumers away or toward a particular method of financing, we see no rationale basis for the distinction the Board appears to be drawing here.

Including Voluntary Credit Insurance & DCCs in the APR Flies in the Face of TILA's Purpose.

The Board noted in its commentary[13] that it believes that a more inclusive approach to determining the finance charge would be more consistent with TILA's purpose, enhance consumer understanding and use of the finance charge and APR disclosures, and reduce compliance costs. While we agree with the Board's proposal to include mandatory fees in the APR, including *voluntary* credit insurance premiums and DCC fees in the finance charge will not enhance consumer understanding of the finance charge or APR and is inconsistent with TILA's purpose.

As the Board noted in its 1998 Joint Report Concerning Reform to TILA and RESPA, while "include[ing] in the finance charge and APR optional and other costs--such as ... premiums for optional credit life insurance ... - offers a more complete price tag for the consumer than the current disclosure, it does not readily permit consumers to compare credit costs because the credit cost is combined with optional expenses, which could vary among creditors and by consumers' choices. *TILA's current approach*--providing additional cost information about such charges without adding them to the finance charge or the APR--*seems more consistent with TILA's purposes*."[14]

Indeed, requiring the premium for *voluntary* credit insurance or fee for voluntary DCC to be included in the finance charge and resulting APR calculation will hurt, not help, the APR as an effective tool for comparison shopping. First, the "all fees in" approach cannot guarantee all lenders will provide APR quotes containing the same combination of voluntary product fees.

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[11] As of November 23, 2009, 128 Credit Life complaints and 276 Credit Accident & Health complaints were reported. The NAIC Closed Confirmed Consumer Complaints by Coverage Type As of November 23, 2009, https://eapps.naic.org/documents/cis_aggregate_complaints_by_coverage_types.pdf.
[12] Durkin, *supra* at 213.
[13] 74 Fed. Reg. at 43244 (Aug. 26, 2009).
[14] Board of Governors of the Federal Reserve System/HUD, 1998 Joint Report to the Congress Concerning Reform to TILA and RESPA at 13.

Thus, a consumer obtaining an APR quote that includes voluntary credit insurance or DCC from creditor A cannot make a meaningful comparison to an APR quote from Creditor B that does not include voluntary credit insurance or DCC.

Failing to provide consumers with an adequate gauge for comparison shopping will inevitably lead consumers in many cases to unwittingly select loans having a less favorable base APR than were otherwise available to them. That is, the risk exists that consumers may select the loan from Creditor B with the seemingly lower APR when the loan from Creditor A, in fact, had the lower base APR (an APR that does not include voluntary products). Including voluntary credit insurance and DCC in the APR calculation will undermine the APR as a reliable comparison tool for consumers.

Including Voluntary Credit Insurance and DCCs in the APR will Mislead Consumers, Jeopardizing Homes and Families' Financial Stability.

The Board proposes to require creditors to use a chart to compare the APR to the HOEPA average price offer rate for borrowers with excellent credit and the HOEPA threshold for higher-priced loans in an effort to help consumers understand whether they are being offered a loan that comports with their creditworthiness. While this comparison makes good sense in theory, adding a voluntary product like credit insurance or DCC will mislead consumers.

Adding voluntary credit insurance and DCCs to the finance charge will raise the APR and push consumers closer to the HOEPA and higher-priced loan credit threshold, misleading consumers into believing they have substandard credit. Moreover, including in the APR comparison chart a product the consumer voluntarily chooses to purchase may dissuade many consumers from protecting their loans, jeopardizing their homes or other collateral, their credit ratings as well as their families' financial well being.

The APR Proposal Will Drive Lenders Out of the Credit Insurance & DCC Markets, Harming Those Consumers Who Need These Products the Most.

The Board commented it believes the proposed revisions to the finance charge may enhance competition for third-party services since creditors would likely be more mindful of fees or charges that must be included in the finance charge and APR.[15] While the proposed revisions to the finance charge definition may enhance competition for compulsory fees offered by third-parties, it will not have the same effect for voluntary products like credit insurance and DCC. Creditors will likely stop offering these voluntary products in an effort to keep the APR low and competitive. Eliminating voluntary products like credit insurance and DCC will leave unprotected an entire segment of our population who either lacks other insurance or lacks the ability to obtain other insurance. The obvious consequence here is many more loans will go unprotected, increasing the risk of default and contributing to the very crisis currently underway in this country.

[15] 74 Fed.Reg. at 43244.

Voluntary Credit Insurance & DCC Poses No Regulatory Burden or Litigation Risk.

The current exceptions for voluntary credit insurance and DCCs do not expose creditors to significant regulatory burden or litigation risk. Many of the statutory and regulatory exceptions to the finance charge definition are fairly broad, making it difficult for creditors to understand whether a particular fee comes within the ambit of a relevant exception, particularly as it relates to real estate secured loans.[16] For example, creditors asked the Board to clarify the uncertainty regarding whether creditors could treat a fee to review an appraisal similar to the appraisal fee itself and exclude it from the finance charge. Creditors have also sought clarification regarding how fees for periodic inspections *during the loan term* should be treated in view of the fact that a fee to inspect property *before* the creditor extends credit can be excluded from the finance charge.[17]

By contrast, credit insurance and DCC products are clearly defined and regulated by the states and/or the OCC – creditors suffer no confusion when determining whether a credit insurance premium or DCC fee can be excluded from the finance charge. Unlike other statutory and regulatory exceptions to the definition of finance charge, credit insurance and DCCs do not pose any of the same litigation risks or regulatory burdens for creditors.

Credit Life and Term Life Insurance Provide the Same Relative Value to Consumers.

The cost of and "return" to policyholders from credit life and term life insurance are functionally equivalent. Many of the critics of credit life insurance contend that consumers who would otherwise purchase credit life insurance would be better served by purchasing a "low cost" level term life insurance policy to cover their needs. According to a December 2009 industry actuarial report[18], however, these contentions are not grounded in fact.

Comparing "return" to policyholders, as measured by loss ratio, of several large writers of term life insurance with the credit insurance industry, the report reveals that the average term life loss ratio assuming a $50,000 face amount is 28.5%, versus 43% for credit life. The average term life loss ratio assuming a $250,000 face amount is 47.4%, versus 43% for credit life. *See* Attachment A.

Moreover, the cost of term life policies, taking an average across ages and underwriting classes and extrapolating the rates for a $50,000 policy down to an $8,000 ten-year level term life policy, varies from a low of about $.56 to a high of $.65 per $100. Based on a weighted average, the overall cost of term life is about $.11 per 100 higher than credit life insurance. On average,

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[16] In its 1998 Joint Report to Congress Concerning Reform to TILA and RESPA, the Board noted that it annually receives thousands of telephone calls regarding TILA, many of which involve questions about the proper characterization of a fee imposed in connection with transactions secured by real estate. The Board indicated that the "some fees in, some fees out" approach has resulted in litigation about the proper characterization of costs associated with credit transactions, particularly for real estate secured loans. 1998 Joint Report to the Congress Concerning Reform to the Truth in Lending Act and the Real Estate Settlement Procedures Act at 11.
[17] *Id.*
[18] *Term Insurance Versus Credit Life*, Christopher Hause, Actuarial Solutions (December 4, 2009), attached hereto as Attachment A.

consumers save more by purchasing credit life insurance, with increasingly significant savings for consumers over age 55. *See* Attachment A.

However, even if a consumer wanted to purchase term life insurance rather than credit life to protect the consumer's new debt obligation, term life coverage simply is not available. Our internet search of ten websites offering term life quotes on behalf of multiple insurance companies reveals only one company making term life coverage available in an amount less than $25,000 – CSO's average amount of in-force credit life coverage is $ 13,400, with the industry average resting at $6,000, both well below the minimum coverage amounts required of most term life providers. *See* Attachment B. Credit insurance, contrary to the arguments of some of its critics, provides the same relative value to consumers at the same or lower cost than term life.

The Board's "All Fees In" Proposal Will Disproportionately Impact Rural Communities.

The Board correctly notes that its APR proposal will result in an increase in the number of loans classified as HOEPA and Higher-priced loans, particularly smaller loans in rural community banks. We respectfully submit that the Board failed to sufficiently consider the disproportionate effect the increased number of Higher-priced and HOEPA loans will have in the rural market and the additional burden it will put on financial institutions serving those markets. With the comparatively lower real estate values found in rural and agricultural communities than in larger metropolitan areas, a higher percentage of loans issued by financial institutions serving those markets will be classified as HOEPA and higher-priced, which may cause these lenders to stop offering voluntary credit insurance and DCCs altogether. The credit insurance and DCC industries saw the amount of voluntary single premium credit insurance and DCCs sold decrease significantly with the advent of HOEPA. The increase in the number of loans exceeding the Higher-priced or HOEPA loan thresholds will undoubtedly continue to erode the frequency with which voluntary single premium credit insurance and DCC is offered and written, and we expect rural community lenders may stop offering voluntary credit insurance and DCCs altogether.

This is an ill-conceived consequence, particularly in rural areas where the population does not always have access to multiple insurance options available to residents of more affluent urban areas. In our experience, customers in rural areas often lack adequate insurance and for them credit insurance and DCC fulfills an important need. We do not believe community banks have unnecessarily sold insurance products to their customers or charged unnecessarily high interest rates. Rather, in our experience working with community banks, these lenders exist by providing services their customers need and value. These community lenders see their customers on a regular basis and fulfill many of their customers' financial needs. The "all fees in" APR proposal will likely force these community lenders to forego servicing their consumers' insurance or protection needs as the result of cost prohibitive regulatory burdens associated with HOEPA and Higher-priced loan requirements. We believe the proposal to include voluntary single premium credit insurance and DCC products in the finance charge will make it more difficult for these community lenders to compete with the large bank holding companies, which will negatively impact not only community lenders, but their customers and rural communities we well.

Attachment A - APR Proposal

Term Insurance Versus Credit Life
Which Returns More to the Policyholder?

It has long been a criticism of Credit Life Insurance that the loss ratios are "too low," and that the measure of a policy's value to the purchaser can be measured in terms of the return to policyholders, i.e. "sufficient" loss ratio.

Many of the same critics believe that credit life purchasers would be well served by purchasing a low cost level term life insurance policy to cover their needs.

This evaluation compares credit life to term life insurance. Which one is the "fairer" product in terms of return to the policyholder, as measured by loss ratio?

I compiled the rates of several large writers of term insurance and selected the lowest rate by gender and age using three underwriting classes (preferred nonsmoker, standard nonsmoker and standard smoker). I then developed reasonable mortality assumptions for each class and age using the 2008 VBT, which is the most recent basic table published by the SOA. I then calculated a "loss ratio" based on five years of surviving policies, without discounting for interest. This is the measure of loss ratio which is most comparable to the way that credit life loss ratios are calculated.

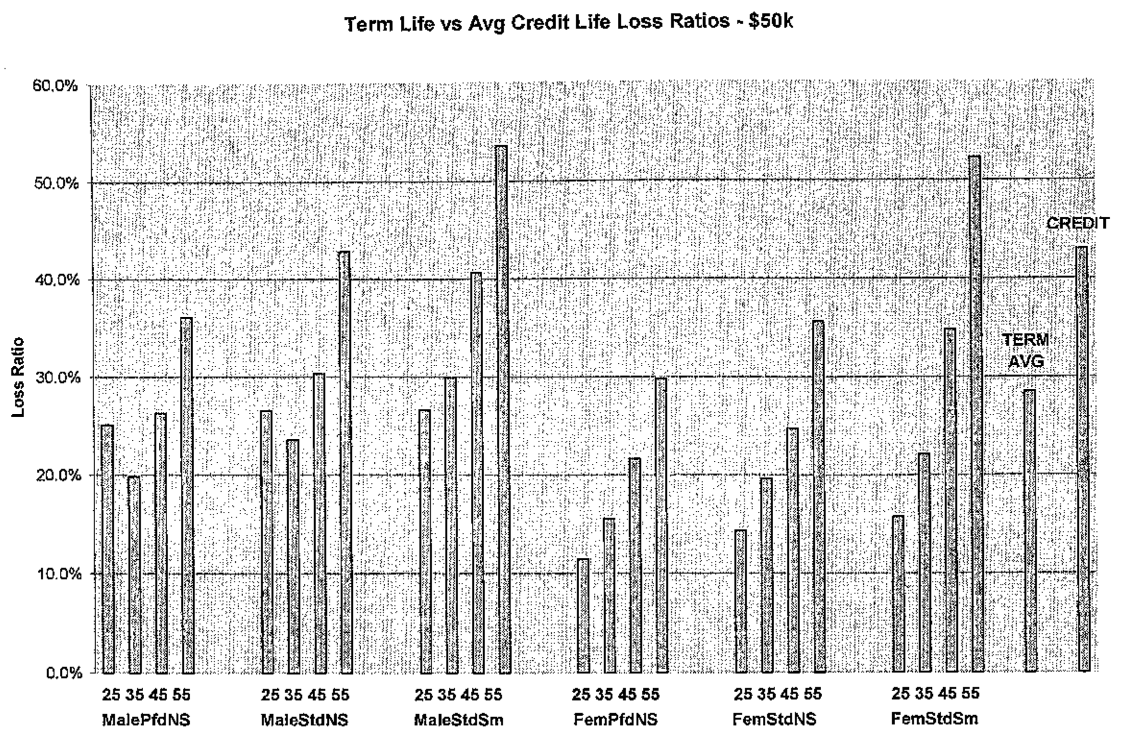
I calculated the term loss ratios using ten year level term rates at two different term face amounts - $50,000 and $250,000. Both are obviously higher than the $8,000 average size for credit life, but for those who can plan ahead and purchase term insurance for future contingent events, it is instructive to show the variation in comparisons at different term sizes.

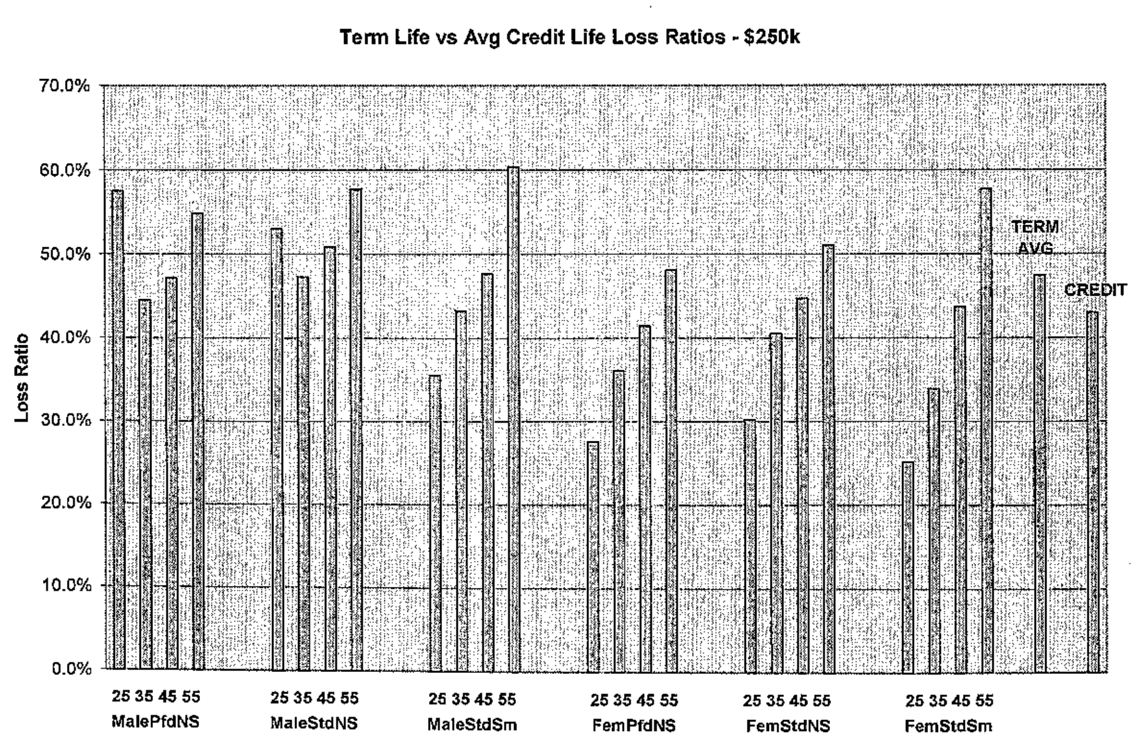
The results are on the attached graphs. The average term loss ratio assuming a $50,000 face amount is 28.5%, versus 43% for credit life. The average term loss ratio assuming a $250,000 face amount is 47.4%, versus 43% for credit life.

The argument as to what is the "appropriate" loss ratio for credit life may go on, but the supposed superiority of term life in providing value to the policyholder is not consistent with the facts.

Christopher H. Hause, FSA
December 4, 2009

Attachment A - APR Proposal





Term Insurance Versus Credit Life
Which Rates are Lower?

Many of the critics of credit life insurance believe that credit life purchasers would be well served by purchasing a "low cost" level term life insurance policy to cover their needs. In comparison, many times they cite a non-smoking 35 year old in perfect health who can purchase 20 times the coverage for the same cost.

We all know that credit life serves a much broader range of health and age groups than the above example would suggest.

This comparison pits credit life against term life insurance. Which one is able to provide coverage for the lower cost? Is term life really a "better buy?"

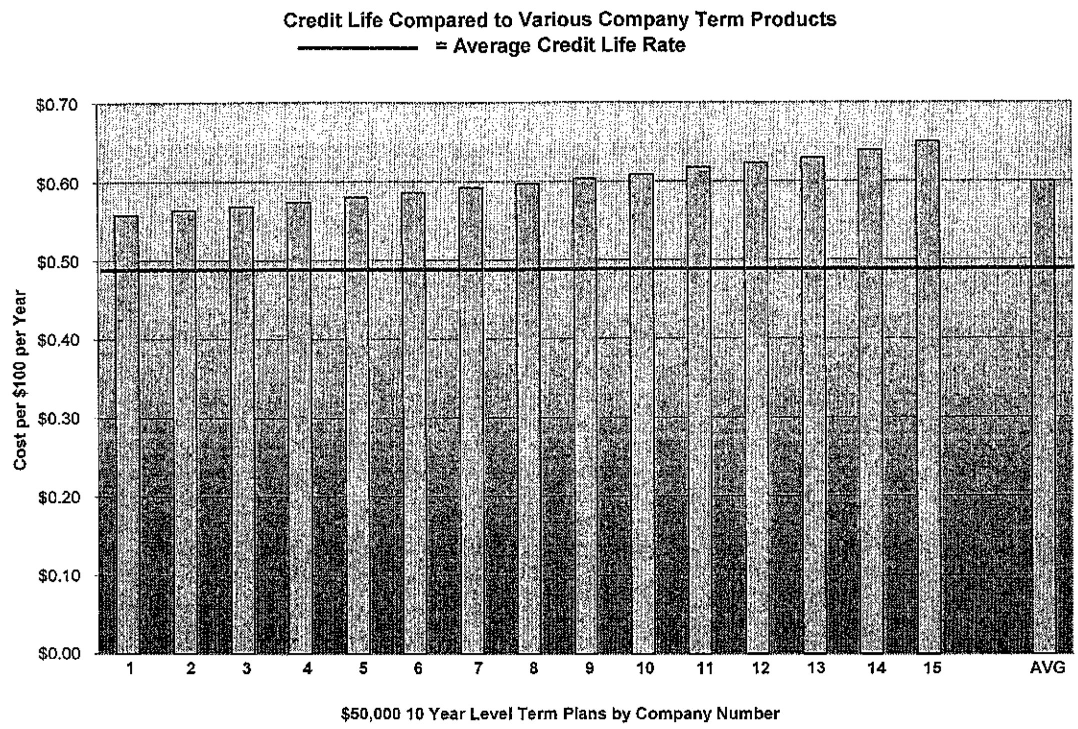
I compiled the rates of fifteen large writers of term insurance and took an average of them by age and underwriting class. Since none of the writers offer individual level term in an amount as small as $8,000 (the average credit life contract issued in 2008), I extrapolated the rates for a $50,000 policy down to what the cost would be for an $8,000 ten year level term life policy. Taking an average across ages and underwriting classes, I calculated a cost per $100 per year, which is the basis for credit life rates.

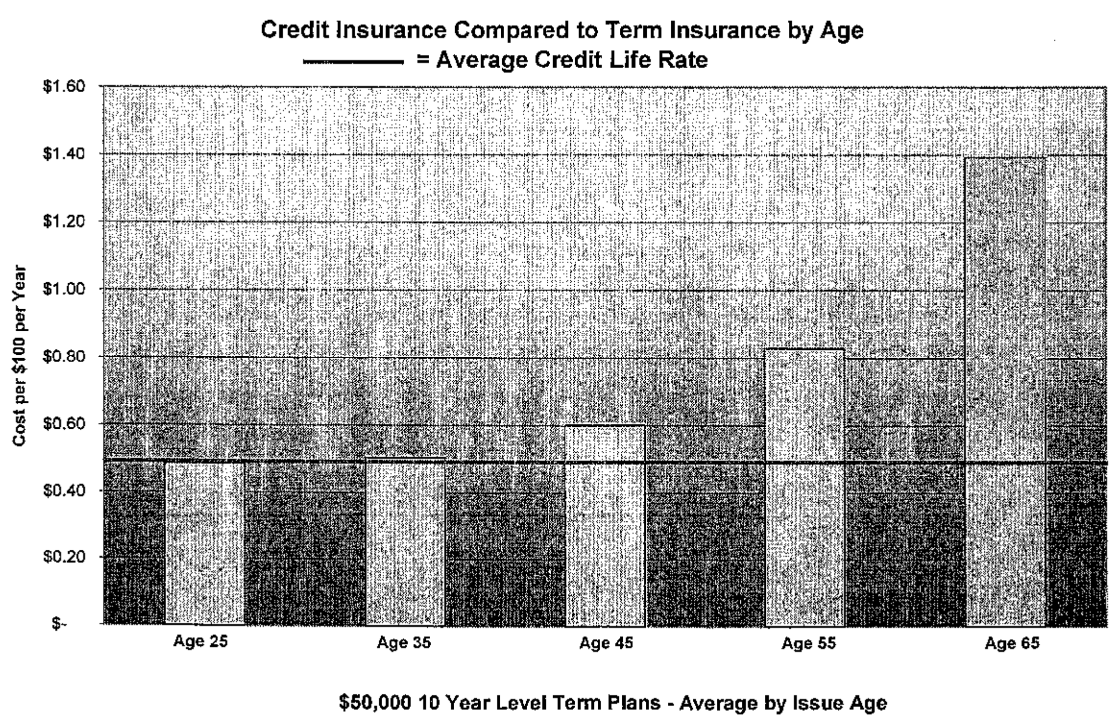
The results are on the attached graph. The cost of the term policies varies from a low of about $.56 to a high of about $.65. Based on a weighted average, the overall cost of the term plan was about $.11 higher than for credit life insurance.

The graph shows that credit life is as efficient as other term life insurance products at providing coverage. A second graph shows the average credit life rate compared to an average rate from the same fifteen companies that varies by issue age. With the increasing average age of purchasers and aging of the baby boomers, credit life will continue to compare favorably against term life for providing coverage at a reasonable cost.

Christopher H. Hause, FSA
December 4, 2009

Attachment A - APR Proposal





Attachment B - APR Proposal
12.22.2009
Central States Health & Life Co. of Omaha

Following is information from several websites offering term life quotes.

1. Matrixdirect.com
   $100,000 Minimum amount
   10 year Minimum term

2. Intelliquote. com
   $5,000 Minimum amount
   10 year Minimum term

3. Wholesaleinsurance.net
   $25,000 Minimum amount
   $10 year Minimum term

4. Insurancecomplete.com
   No specified amount
   10 year Minimum term
   Question regarding Hazardous Occupations

5. Accuquotelife.com
   One of two which presented a quote with no personal information other than age/gender/smoker/nonsmoker
   Minimum amount $50,000
   Minimum term 10 years
   Nonsmoker rates (age 48) varied from $121.45 to $203.97 per year based on rate class.
   Smoker rates (age 48) varied from $305.10 to $431.00 per year based on rate class.

6. Quickquote.com
   The other to provide rates.
   $25,000 Minimum amount
   10 year Minimum term

   $25,000 - 10 year term nonsmoker (age 48) $110.50 per year, smoker $250.75 per year
   $50,000 - 10 year term nonsmoker (age 48) $207.00 per year, smoker $485.00 per year

7. Insureme.com
   $50,000 Minimum amount
   Annual renewable term

8. Terminsurancequotesfast.com
   $100,000 Minimum amount
   No term specified

9. Budgetlife.com
   $100,000 Minimum amount
   10 year Minimum term

10. USAcoverage.com
    $25,000 Minimum amount
    5 year Minimum term

For these ten sites, many of which represent multiple companies, only one site makes available a policy having a face value less than $25,000. Most minimum terms are 5-10 years. All require underwriting. This search was not intended to be exhaustive.

12.22.2009

CENTRAL STATES HEALTH & LIFE CO. OF OMAHA

RESPONSE TO REGULATION Z PROPOSAL R-1366

DISCLOSURE REQUIREMENTS

The proposed credit insurance and debt cancellation disclosure requirements as specified in Section 226.38(h) on page 43337 of the Federal Register and shown in sample forms H-17(C) and H-17(D) do not, in our opinion, fulfill the stated purpose of providing the consumer an easily understandable disclosure.

Section 226.38(h) Contents of Disclosures – Credit insurance and debt cancellation coverage.

1. i. If the product is optional.
   OPTIONAL COSTS in all caps and bold
   Name of the product

   ii. If the product is required.
   Name of the product

   NO COMMENT

2. If the product is optional.
   The term "**STOP**" caps and bold along with a statement
   "the consumer does **<u>not</u>** have to buy the product to get the loan.

   COMMENT: We believe the proposed statement is very negative and will potentially cause individuals in need of coverage to not investigate further. The required OCC important disclosures contain the following language which we believe meets your goal of informing the consumer the product is optional without negatively influencing the consumer. Also, in the case of debt cancellation products it will be consistent with the other disclosures received by the consumer. If the consumer is purchasing a debt cancellation product they will also be provided with an Important Disclosures page which will state:

   '**This product is optional**" and the statement "Your purchase of debt cancellation is optional. Whether or not you purchase debt cancellation will not affect your application for credit or the terms of any existing credit agreement you have with the bank."

3. A statement that if the consumer already has insurance, then the policy or coverage may not provide the consumer with additional benefits.

   COMMENT: This proposed disclosure is inaccurate as it relates to credit insurance and debt cancellation products which we are familiar. The statement that "If you have insurance already, this policy may not provide you with any additional benefits" is not correct. These products pay irrespective of other insurance the insured borrower may have in effect at time of claim. State credit insurance statutes and regulations make no provision for subrogation of credit insurance benefits. To verify this we suggest you contact any state insurance department and talk to a state insurance regulator familiar with credit insurance.

4. A statement that other types of insurance may give the consumer similar benefits and are often less expensive.

COMMENT: Although the proposed statement says "may" we believe the statement is misleading as it is not always true for certain groups of individuals if you consider the age and health of the consumer. Because individual term products are age rated it is almost never true a person over age 45 will pay less for a term life insurance product than they would for a credit life insurance product. Further, with the usually strict underwriting standards for individual term products certain individuals, particularly smokers, that do not qualify for low cost term insurance may well qualify for credit insurance at the same state regulated premium rate as non-smokers.
Credit disability insurance is not occupationally priced and as a result will often provide coverage to individuals that do not qualify for ordinary disability insurance, particularly those in blue collar jobs.

5. AGE and Eligibility Requirements

COMMENT: Section 226.38(h) provides specific disclosure information. We do not object to the creditor being required to verify age and employment information, however, we do not believe the disclosure guidance provided is correct.

(i) If the eligibility restrictions are limited to age and/or employment, a statement that based on the creditor's review of the consumer's age and/or employment status at this time, the consumer would be eligible to receive benefits.

We believe this statement is potentially misleading. In addition, to eligibility requirements a credit insurance contract will also contain certain limitations and exclusions. One exclusion contained in most insurance contracts is suicide. If the consumer is provided a disclosure that states the consumer would be eligible to receive benefits it would be incorrect in the event of a suicide claim. Some contracts contain other exclusions, particularly if total disability insurance coverage is issued. The statement would also be incorrect in those cases.

In our opinion the correct disclosure would be "Based on our review of your age and/or employment status at this time, you are eligible to purchase credit insurance."

(ii) If there are other eligibility restrictions in addition to age and/or employment, a statement that based on the creditor's review of the consumer's age and/or employment status at this time, the consumer may be eligible to receive benefits.

In (5)(ii) of this same Section the requirement is if the eligibility restrictions are **not** limited to age and/or employment, a statement that based on the creditor's review of the consumer's age and/of employment status at this time, the consumer **may** be eligible to receive benefits. This statement is more accurate but still may be misleading. For example, in the case of credit insurance issued in conjunction with a closed-end loan the consumer is required to complete an application for insurance with the insurance company and it is common practice to have the consumer answer certain health questions to qualify for insurance coverage. Even though the age and/or employment eligibility requirements may be met the consumer may not meet the health requirements and not be issued the coverage.

In our opinion the correct disclosure would be "Based on our review of your age and/or employment status at this time, you are eligible to apply for credit insurance."

6. If there are other eligibility restrictions in addition to age and/or employment, such as pre-existing health conditions, a statement that the consumer may not qualify to receive any benefits because of other eligibility restrictions.

COMMENT: In our opinion such a disclosure is needed. However, again we do not agree with the language of the proposed disclosure because of its exclusive reference to eligibility. We prefer and suggest you refer to OCC Rule 37 Important Disclosures which includes the following suggested disclosure:

There are eligibility requirements, conditions, and exclusions that could prevent you from receiving benefits under credit insurance.

7. Debt Suspension
A statement that interest will continue to accrue.

NO COMMENT

8. See the FRB Website.

COMMENT: We trust the Board will consult with industry representatives when developing the website.

9. i. If the product is optional a statement of the consumers request to purchase and a statement of the cost together with the loan amount and the term.
ii. If the product is required a statement that the product is required along with a statement of the cost together with the loan amount and term.
iii. Cost, month or year, loan amount, and term shall be underlined.

NO COMMENT

10. Signature and Date.

NO COMMENT

GENERAL COMMENTS: In the case of debt cancellation and debt suspension products the OCC has also adopted required disclosures. See OCC Rule 37. There are significant differences in the statements contained in OCC disclosures compared to the disclosures proposed by the Board.

This will cause confusion and unnecessary questions in the consumers mind. For example, the statement in the Section 3 above states "this policy". Credit insurance is normally group insurance and the consumer is provided a certificate of insurance, not a policy. From the consumers perspective a more accurate statement would be "this insurance" or "insurance provided to me under the terms of the policy". If coverage is debt cancellation coverage, the coverage is provided under the terms of an addendum to the loan agreement, not a policy and we believe the statement should be "this addendum". These changes clearly describe the documents the consumer receives and better serve your purposes.

We also request that, if the Board deems it necessary to proceed with adopting its version of the disclosure forms as proposed, the Board provide detailed instructions regarding their use in conjunction with the required OCC Important Disclosures.